



SCHEDULE A

AN ANNUAL BUDGET AND SUPPORTING DOCUMENTATION MOPANI DISTRICT MUNICIPALITY

ANNUAL BUDGET OF

MOPANI DISTRICT MUNICIPALITY

2012/2013 TO 2013/14
MEDIUM TERM REVENUE AND
EXPENDITURE FORECASTS

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Abbreviations and Acronyms

ASGISA	Accelerated and Shared Growth Initiative	ℓ	litre
BC	Budget Committee	LED	Local Economic Development
CFO	Chief Financial Officer	MMC	Member of Mayoral Committee
MM	Municipal Manager	MFMA	Municipal Financial Management Act
CPI	Consumer Price Index	MIG	Municipal Infrastructure Grant
CRRF	Capital Replacement Reserve Fund	MSA	Municipal Systems Act
DBSA	Development Bank of South Africa	MTEF	Medium-term Expenditure Framework
DoRA	Division of Revenue Act	MTREF	Medium-term Revenue and Expenditure Framework
FBS	Free basic services	NERSA	National Electricity Municipality Regulator South Africa
GDP	Gross domestic product	NKPIs	National Key Performance Indicators
GFS	Government Financial Statistics	OP	Operational Plan
GRAP	General Recognised Accounting Practice	PMS	Performance Management System
IDP	Integrated Development Plan	PPE	Property Plant and Equipment
IT	Information Technology	SALGA	South African Local Government Association
kℓ	kilolitre	SDBIP	Service Delivery Budget Implementation Plan
km	kilometre	SMME	Small Micro and Medium Enterprises
KPA	Key Performance Area		
KPI	Key Performance Indicator		
kWh	kilowatt		

Part 1 – Annual Budget

1.1 Mayor's Report

It is my privilege to present the 2012/2013 Draft Medium Term Revenue Expenditure Framework budget. Mister Pravin Gordhan, the Minister of Finance said in his budget speech that “our new story, our period of transaction, is about building a modern infrastructure, a vibrant economy, a decent quality of life for all, reduced poverty, decent employment opportunities. It is a story that must be written by all of us. Not just by government. Not just by business. Not just by unions. By all of us, South Africans from all corners of this country”.

This Draft Budget is derived from our mandate being that provision of water, sanitation, fire services and provision of disaster management functions. We therefore need to remain focused on the effective delivery of the core municipal services through the application of efficient and effective service delivery mechanisms.

As part of our drive to eliminate poverty and improve the lives of our communities, the Mopani District Municipality will be spending R127m for the construction of about 18 000 VIP toilets in the four local municipalities (Ba-Phalaborwa, Greater Tzaneen, Greater Letaba and Greater Giyani) during the current financial year. The district was able to eliminate the backlog in terms of provision of sanitation in Maruleng during the 2009/2010 financial year. The district is on track to eliminate the backlog in terms of provision of sanitation in the 2012/2013 financial year with a budget of R50 million.

In dealing with the provision of water and sewer reticulation, the district will be spending an amount of R152 million for the provision of bulk water and reticulation and an amount of R75 million for the provision of bulk sewer system and reticulation. This is in terms of the district priorities as indicated the Integrated Development Plan.

In assisting the local municipalities in the district, the district has put aside an amount of R111 million for the provision of road infrastructure, R11, 5 million for sportsfields, R8, 6 million for disposal sites and R5, 7 million for provision of electricity and Apollo lights in order to deal with crime.

The application of sound financial management principles for the compilation of the Municipality's financial plan is essential and critical to ensure that the Municipality remains financially viable and that sustainable municipal services are provided economically and equitably to all communities.

In doing so, we also need an increased working relationship as Water Service Authority and the locals as Water Service Providers.

1.2 Council Resolutions

Council of Mopani District Municipality met to consider the annual budget of the municipality for the financial year 2012/2013. The Council approved and adopted the following resolutions:

1. The Council of Mopani District Municipality, acting in terms of section 24 of the Municipal Finance Management Act, (Act 56 of 2003) approves and adopts:
 - 1.1. The annual budget of the municipality for the financial year 2012/2013 and the multi-year and single-year capital appropriations as set out in table A1 to A10 and supporting tables SA 1 to SA 37.
 - 1.1.1. A1: Budget Summary
 - 1.1.2. A2: Budgeted Financial Performance (revenue and expenditure by standard classification).
 - 1.1.3. A3: Budgeted Financial Performance (revenue and expenditure by municipal vote)
 - 1.1.4. A4: Budgeted Financial Performance (revenue by source and expenditure by type)
 - 1.1.5. A5: Multi-year and single-year capital appropriations by municipal vote and standard classification and associated funding by source
 - 1.1.6. A6: Budgeted financial position
 - 1.1.7. A7: Budget Cashflow
 - 1.1.8. A8: Cash backed reserves/accumulated surplus reconciliation
 - 1.1.9. A9: Asset Management
 - 1.1.10. A10: Basic Service Delivery measurement
2. The Council of Mopani District Municipality, approves and adopts the following budget related policies
 - 2.1. the tariffs policy
 - 2.2. the indigent policy
 - 2.3. the budget policy
 - 2.4. the investment policy
 - 2.5. the virement policy
 - 2.6. the Supply chain Management policy
 - 2.7. Asset management policy
 - 2.8. Writting off of bad debts policy
3. The Council of Mopani District Municipality, acting in terms of 75A of the Local Government: Municipal Systems Act (Act 32 of 2000) note the tariffs for other services water, sewerage and fire services.

1.3 Executive Summary

The Mopani District Municipality has during August 2011 approved a time schedule outlining the key deadlines in terms of the preparation of both IDP and budget for the 2012/2013 financial year. In the reminding ourselves about the objectives of the Municipal Finance Management Act, the application of sound financial management principles for the compilation of the municipality's financial plan is essential and critical to ensure that the Mopani District Municipality remains financially viable and that municipal services are provided sustainably, economically and equitably to all communities.

The service delivery priorities were reviewed as part of this year's planning and budget process. Where appropriate, funds were transferred from low- to high-priority programmes so as to maintain sound financial stewardship.

The municipality advertised for the appointment of a service provider for the compilation of the district wide Revenue Enhancement Strategy. The terms of reference amongst others include the review of credit control policies and debt collections by-laws, review of tariffs for water provision, investigation of water losses and recommendations for mitigating factors. In implementing these issues, the municipality revenue collection will increase and thereby increased financial viability.

National Treasury's MFMA Circular No. 51, 54, 55,58 and 59 were used to guide the compilation of the 2012/2013 MTREF.

The main challenges experienced during the compilation of the 2012/2013 MTREF can be summarised as follows:

- The ongoing difficulties in the national and local economy;
- Aging and poorly maintained water infrastructure;
- The need to reprioritise projects and expenditure within the existing available resources given the cash flow realities and declining cash position of the municipality;
- The increased cost of bulk water and electricity Municipality (due to tariff increases from Lepelle Northern Water and Eskom), which is placing upward pressure on service tariffs to residents.
- Affordability of capital projects considering that the municipality is predominantly rural with no infrastructure.

Our budget was informed amongst others by the following:

- The 2011/12 Adjustments Budget priorities and targets,
- Tariff increases should be affordable and should generally not exceed inflation as measured by the CPI, except where there are price increases in the inputs of services that are beyond the control of the municipality, for instance the cost of bulk water and electricity.
- Ensuring that service delivery and capital projects use labour intensive methods;
- Ensuring that service providers use labour intensive approaches;
- Supporting labour intensive LED projects;
- Participating fully in the Extended Public Works Programme; and
- Implementing interns programmes to provide young people with on the job training.

The table below gives an overview of the Mopani District Municipality 2012/2013 budget

Table 1 Consolidated Overview of the 2012/2013 MTREF

R Thousand	Budget Year 2012/2013	Budget Year 2012/13	Budget Year 2013/14
Total operating Revenue	969 032 318	989 374 007	1 123 870 137
Total Operating Expenditure	801 597 475	753 763 724	866 588 083
Surplus Deficit	167 434 843	235 610 283	257 282 054
Total Capital Expenditure	294 860 000	235 590 360	257 274 565
Surplus/(Deficit) after capital exp	(127 425 157)	19 923	7 489

Total revenue budget is mainly represented by equitable share and MIG allocations amounting to R463 410 000 and R319 302 000 for the 2012/2013 financial year respectively.

Revenue from local municipalities on water and sanitation estimated at R101 151 318. The debt impairment is budgeted at R27 825 044. This is informed by review of water tariffs especially in Greater Tzaneen Municipality. This is represented by an amount of R86 million and R14 million for water and sewerage services respectively as indicated in Table A2 (Budget Financial Performance). This has increase by about 17.44% from full year forecast of R86 million in 2011/2012 financial year to R101 million in the 2012/2013 financial year and is mainly due to annual increases and adjustments in other tariffs that did not take input costs into consideration.

Included in the operating expenditure of R801 597 475 is an amount of R128 854 464 for depreciation which represent a non cash item for the financial year 2012/2013.

Repairs and maintenance which forms part of operating budget amounts to R44 380 488 with bulk purchases amounting to R66 772 731 for the financial year 2012/2013. A reduction in bulk purchases is informed by taking into account the performance of the local municipalities purchases for the year ending February 2012 based on the information from July 2011 provided by all local municipalities excluding Ba-Phalaborwa were the district is responsible for paying current account to Lepelle Northern Water. In the adjustments budget a figure of bulk purchase for Ba-Phalaborwa has been included.

Salaries and allowances amounts to R250 216 803 will water services excluding budget for locals amounting to R99 001 542 for the 2012/2013 budget.

Included also in the salaries and allowance budget is an amount of R29 641 761 and R13 027 571 for both fire and disaster management services respectively in the 2012/2013 financial year budget.

Salaries and allowances in total represent an increase of about 19.59% from an amount of R209 million in 2011/2012 financial year to an estimated budget of R250 million in the 2012/2013 financial year.

This increase is due to an annual increase and filling of budgeted vacant posts.

Capital expenditure consists of an amount of R227 900 000 for water and sanitation infrastructure which is the municipality's core function. Other capital projects amount to R66 960 000 which include amongst others vehicles and other administrative equipment.

The municipality has not taken any long term loan for financing its capital projects in the 2012/2013 financial year.

1.4 Operating Revenue Framework

The municipality derives its revenue mainly from grants and subsidies.

The following table is a summary of the 2012/2013 MTREF (classified by main revenue source):

Table 2 Summary of revenue classified by main revenue source

Description	2012/2013 FY	2013/2014 FY	2014/2015 FY
Equitable share	463 410 000	497 516 000	535 513 000
MIG	319 302 000	336 826 000	373 071 000
EPWP	3 808 000		
Revenue- Locals	101 151 318	107 259 007	114 464 917
FMG	1 250 000	1 500 000	1 250 000
MSIG	1 000 000	900 000	950 000
DWA (Operation & Maintenance	44 133 000	34 022 000	86 593 000
Rural Transport Grant	1 776 000	1 864 000	1 972 000
Other income	33 552 000	9 487 000	10 056 220
Total Revenue	969 382 318	989 374 007	1 123 870 137

In line with the formats prescribed by the Municipal Budget and Reporting Regulations, capital transfers and contributions are excluded from the operating statement, as inclusion of these revenue sources would distort the calculation of the operating surplus/deficit.

1.4.1 Sale of Water and Impact of Tariff Increases

Mopani District Municipality is a Water Services Authority and has appointed the locals municipality as Water Service Providers. In addition to the locals municipalities been appointed as water service providers, the Lepelle Northern Water has also been appointed to do water

provisioning in other areas of the district. Water Service Level Provision Agreements have been signed will all involved in water service provisioning.

- Water tariffs are fully cost-reflective – including the cost of maintenance and renewal of purification plants, water networks and the cost associated with reticulation expansion;
- Water tariffs are structured to protect basic levels of service and ensure the provision of free water to the poorest of the poor (indigent); and
- Water tariffs are designed to encourage efficient and sustainable consumption.

Tariffs policy and indigent policy have prepared and forms part of the budget related policies presented to give effect to the effective implementation of all issues mentioned above.

The bulk supply of water is done by Lepelle Northern Water using Politsi, Modjadji, Ba-Phalaborwa and Nkowankowa schemes.

Greater Tzaneen Municipality is responsible for the Water Purification at Tzaneen and all the other schemes are operated by Mopani District Municipality.

An average across the board tariff increase of 6 per cent from 1 July 2012 for water is proposed. This is based on input cost assumptions of for each individual schemes . In addition 6 kℓ water per month will again be granted free of charge to all indigents households.

The Mopani District Municipality is in the process of compiling a district wide indigent register will which assist in the provision of all free basic services.

A summary of the proposed tariffs for households (residential) and non-residential are attached as per annexure:

1.4.2 Sanitation and Impact of Tariff Increases

A tariff increase of 6 per cent for sanitation from 1 July 2012 is proposed. This is based on the input cost assumptions related to water.

- Sanitation charges are calculated according to the percentage water discharged as indicated in the table below;
- Free sanitation will be applicable to registered indigents; and

Proposed tariffs are as per annexure

1.4.3 Overall impact of tariff increases on households

The following table shows the overall expected impact of the tariff increases on a large and small household, as well as an indigent household receiving free basic services.

1.5 Operating Expenditure Framework

The Municipality's expenditure framework for the 2012/2013 budget and MTREF is informed by the following:

- The asset renewal strategy;
- Balanced budget constraint (operating expenditure should not exceed operating revenue) unless there are existing uncommitted cash-backed reserves to fund any deficit;
- Funding of the budget over the medium-term as informed by Section 18 and 19 of the MFMA;
- The capital programme is aligned to the asset renewal strategy and backlog eradication plan;
- Operational gains and efficiencies will be directed to funding the capital budget and other core services; and

The following table is a high level summary of the 2012/2013 budget and MTREF (classified per main type of operating expenditure):

Table 3 Summary of operating expenditure by standard classification item

<u>Expenditure By Type</u>	2012/2013	2013/14	2014/15
Employee related costs	250 216 803	259 592 785	275 864 819
Remuneration of councillors	8 156 339	8 564 156	8 992 364
Debt impairment			
Depreciation & asset impairment	128 854 464	135 294 823	145 004 765
Finance charges	350 223	368 432	386 432
Bulk purchases	111 153 245	90 479 123	93 901 234
Other materials			
Contracted services			
Transfers and grants			
Other expenditure	302 866 401	259 484 833	342 431 618
Loss on disposal of PPE			
Total Operating Expenditure	801 597 475	753 784 152	866 581 232

The budgeted allocation for employee related costs for the 2011/11 financial year totals R52 million, which equals 38 per cent of the total operating expenditure. Based on the three year collective SALGBC agreement, salary increases have been factored into this budget at a percentage increase of 10 per cent for the 2012/2013 financial year. An annual increase of 6 per cent has been included in the two outer years of the MTREF.

The cost associated with the remuneration of councillors is determined by the Minister of Co-operative Governance and Traditional Affairs in accordance with the Remuneration of Public Office Bearers Act, 1998 (Act 20 of 1998). The most recent proclamation and the adjustment in the equitable share allocation in this regard has been taken into account in compiling the municipality's budget.

The provision of debt impairment was determined based on an annual collection rate of 81 per cent and the Debt Write-off Policy of the municipality. For the 2011/11 financial year this amount equates to R7,8 million and escalates to R6,3 million by 2012/13. While this expenditure is considered to be a non-cash flow item, it informed the total cost associated with rendering the services of the municipality, as well as the municipality's realistically anticipated revenues.

Provision for depreciation and asset impairment has been informed by the Municipality's Asset Management Policy. Depreciation is widely considered a proxy for the measurement of the rate asset consumption. Note that the implementation of GRAP 17 accounting standard has meant bringing a range of assets previously not included in the assets register onto the register. This has resulted in a significant increase in depreciation relative to previous years.

Bulk purchases are directly informed by the purchase of water from Lepelle Northern Water. The annual price increases have been factored into the budget appropriations and directly inform the revenue provisions. The expenditures include distribution losses.

Other materials comprises of amongst others the purchase of fuel, diesel, materials for maintenance, cleaning materials and chemicals.

Other expenditure comprises of various line items relating to the daily operations of the municipality.

1.5.1 Priority given to repairs and maintenance

In terms of the Municipal Budget and Reporting Regulations, operational repairs and maintenance is not considered a direct expenditure driver but an outcome of certain other expenditures, such as remuneration, purchases of materials and contracted services. Considering these cost drivers, the following table is a consolidation of all the expenditures associated with repairs and maintenance:

1.5.2 Free Basic Services: Basic Social Services Package

Mopani District Municipality provides as part of its basic social services package both free basic water of 6kl and free sanitation for all indigent households per month.

1.6 Capital expenditure

The total capital budget for the 2012/2013 financial year amounts to R294 860 000 of which R227 900 000 million is for infrastructure development, representing 77.29 percent of total capital budget. Total new assets represent the highest amount of capital budget due to the fact that the municipality is mainly rural and infrastructure development has just begun. Further detail relating to asset classes and proposed capital expenditure is contained in Table A9 (Asset Management). In addition to the MBRR Table A9, MBRR Tables SA34a, b, c provides a detailed breakdown of the capital programme relating to new asset construction, capital asset

renewal as well as operational repairs and maintenance by asset class. Some of the salient projects to be undertaken over the medium-term includes, amongst others:

The following are some of the capital expenditure projects to be implemented in the 2012/2013 financial year:

Water reticulation to villages in Greater Giyani	: R10 000 000
Sekgosese Water Development Water Scheme	: R8 000 000
Giyani Water Works- Extension and upgrading	: R30 000 000
Giyani System N (Mapuve Bulk Main to Siyandani)	: R10 000 000
Sefofotse/Ditshosine/Ramahlati Bulk line	: R10 000 000
Hoedspruit Bulk Water supply	: R6 400 000
Hoedspruit Sewer Plant	: R6 500 000
Kamperus Sewage Plant	: R10 000 000
Upgrading of water reticulation in Greater Tzaneen	: R13 000 000
Upgrading of water reticulation in Greater Letaba	: R 8 000 000
Upgrading of water reticulation in Ba-Phalaborwa	: R5 000 000
Upgrading of water reticulation in Maruleng	: R5 000 000
Upgrading of Selwane Water scheme	: R10 000 000
Kamperus Water supply	: R10 000 000
Namakgale Sewer Plant	: R10 000 000
Lenyenye Sewer Plant	: R12 000 000
Thabina Water Reticulation	: R5 000 000
Tours Bulk scheme	: R8 000 000
Upgrading of Senwamokgope Sewer Plant	: R10 000 000
Upgrading of Phalaborwa Sewer Plant	: R15 000 000
Upgrading of Nkowankowa Sewer Plant	: R12 000 000
Upgrading of Thabina Water Treatment Plant	: R2 000 000

In addition to the Water and Sanitation projects listed above, the District will be implementing the following projects for Road and Bridges to be handedover to the local municipalities upon completion:

Rebuilding of Muhlava Road	: R3 000 000
Metz Bismark Road	: R3 000 000
Xikukwane Xibulane Road	: R10 000 000
Modjadji to Mabele	: R15 000 000
Maseke to Mashishimale Road	: R4 000 000
Thabina to Maake	: R16 000 000
Matsotsosela Bridge	: R9 000 000
Mabulane to Lenokwe Bridge	: R18 000 000
Sephukubje Bridge	: R15 000 000
Sekgopo Road	: R10 000 000
Leretjeng Sports Complex	: R4 000 000
Kgapane Stadium	: R2 500 000
Lenyenye Stadium	: R4 000 000
Development of New Disposal Site in Maruleng	: R5 600 000

Apollo lights	: R4 000 000
Modjadji Royal House & Extension of fencing	: R2 000 000

The District will also embark on the assessment to determine the costing in order to connect the main road with the traditional authorities.

Many of the road infrastructure projects in the last phases and the contractors are already on site.

1.6.1 Future operational cost of new infrastructure

The infrastructure development done is mainly in the rural areas and presently there is no revenue collection done at these areas hence no operational cost of new infrastructure.

1.7 Annual Budget Tables – Mopani District Municipality

Ten main budget tables as required in terms of section 8 of the Municipal Budget and Reporting Regulations. These tables set out the municipality's 2012/2013 budget and MTREF as approved by the Council. Each table is accompanied by *explanatory notes* on the facing page.

1.7.1.Explanatory notes to MBRR Table A1 - Budget Summary

1. Table A1 is a budget summary and provides a concise overview of the municipality's budget from all of the major financial perspectives (operating, capital expenditure, financial position, cash flow, and MFMA funding compliance).
2. The table provides an overview of the amounts approved by Council for operating performance, resources deployed to capital expenditure, financial position, cash and funding compliance, as well as the municipality's commitment to eliminating basic service delivery backlogs.
3. Financial management reforms emphasises the importance of the municipal budget being funded. This requires the simultaneous assessment of the Financial Performance, Financial Position and Cash Flow Budgets, along with the Capital Budget. The Budget Summary provides the key information in this regard:
 - a. The operating surplus/deficit (after Total Expenditure) is positive over the MTREF
 - b. Capital expenditure is balanced by capital funding sources, of which
 - i. Transfers recognised is reflected on the Financial Performance Budget;
 - ii. Internally generated funds is financed from a combination of the current operating surplus and accumulated cash-backed surpluses from previous years. The amount is incorporated in the Net cash from investing on the Cash Flow Budget. The fact that the municipality's cash flow remains positive, and is improving indicates that the necessary cash resources are available to fund the Capital Budget.

1.7.2. Explanatory notes to MBRR Table A2 - Budgeted Financial Performance (revenue and expenditure by standard classification)

Table A2 is a view of the budgeted financial performance in relation to revenue and expenditure per standard classification. The modified GFS standard classification divides the municipal services into 15 functional areas. Municipal revenue, operating expenditure and capital expenditure are then classified in terms of each of these functional areas which enables the National Treasury to compile 'whole of government' reports.

Note the Total Revenue on this table includes capital revenues (Transfers recognised – capital) and so does not balance to the operating revenue shown on Table A4.

Note that as a general principle the revenues for the Trading Services should exceed their expenditures. The table highlights that this is not the case for Water and Sanitation. This situation is due to distribution losses, debt impairment and salaries and allowances of personnel operating in rural areas where there is no billing.

1.7.3. Explanatory notes to MBRR Table A3 - Budgeted Financial Performance (revenue and expenditure by municipal vote)

Table A3 is a view of the budgeted financial performance in relation to the revenue and expenditure per municipal vote. This table facilitates the view of the budgeted operating performance in relation to the organisational structure of the municipality. This means it is possible to present the operating surplus or deficit of a vote.

1.7.4. Explanatory notes to Table A4 - Budgeted Financial Performance (revenue and expenditure)

Total revenue excluding capital transfers is R648 million in 2012/2013 and escalates to R650 million and 748 million by 2013/14 and 2014/2015 respectively. Transfers recognised – operating includes the local government equitable share and other operating grants from national and provincial government.

The main component of the total revenue is grant and subsidies amounting to R513 million, R533 million and R624 million for the financial years 2012/2013, 2013/2014 and 2014/2015 respectively.

Included in the other revenue for 2011/2012 full year forecast is an amount of R54 million which is a refund from the Department of Water Affairs hence a decrease from R66 million in 2011/2012 financial year to R26 million in the 2012/2013 financial year. The main components of other income is surplus cash of R23 million and R3 million for the proceeds on Executive Mayors Charity Cup. Service Other of R5 million is for fire services.

1.7.5. Explanatory notes to Table A5 - Budgeted Capital Expenditure by vote, standard classification and funding source

Table A5 is a breakdown of the capital programme in relation to capital expenditure by municipal vote (multi-year and single-year appropriations); capital expenditure by standard classification; and the funding sources necessary to fund the capital budget, including information on capital transfers from national and provincial departments.

The MFMA provides that a municipality may approve multi-year or single-year capital budget appropriations. In relation to multi-year appropriations, for 2012/2013 R294 million has been allocated.. This allocation escalates to R235 million in 2013/14 and then increase to R257 million in 2014/15 owing primarily to the fact that various projects reach completion in 2012/13 hence the spike in expenditure in year two.

1.7.6. Explanatory notes to Table A6 - Budgeted Financial Position

Table A6 is consistent with international standards of good financial management practice, and improves understandability for councilors and management of the impact of the budget on the statement of financial position (balance sheet).

This format of presenting the statement of financial position is aligned to GRAP1, which is generally aligned to the international version which presents Assets less Liabilities as “accounting” Community Wealth. The order of items within each group illustrates items in order of liquidity; i.e. assets readily converted to cash, or liabilities immediately required to be met from cash, appear first.

Table SA3 provides a detailed analysis of the major components of budgeted financial position items, including:

- Property, plant and equipment;
- Trade and other payables;
- Changes in net assets; and

The municipal equivalent of equity is Community Wealth/Equity. The justification is that ownership and the net assets of the municipality belong to the community.

Any movement on the Budgeted Financial Performance or the Capital Budget will inevitably impact on the Budgeted Financial Position. As an example, the collection rate assumption will impact on the cash position of the municipality and subsequently inform the level of cash and cash equivalents at year end. Similarly, the collection rate assumption should inform the budget appropriation for debt impairment which in turn would impact on the provision for bad debt. These budget and planning assumptions form a critical link in determining the applicability and relevance of the budget as well as the determination of ratios and financial indicators. In addition the funding compliance assessment is informed directly by forecasting the statement of financial position.

1.7.7. Explanatory notes to Table A7 - Budgeted Cash Flow Statement

The budgeted cash flow statement is the first measurement in determining if the budget is funded.

It shows the expected level of cash in-flow versus cash out-flow that is likely to result from the implementation of the budget.

Cash and cash equivalents totals R1 845 133 000 as at the end of the 2012/2013 financial year and escalates to R2 419 433 000 by 2013/14.

1.7.8. Explanatory notes to Table A8 - Cash Backed Reserves/Accumulated Surplus Reconciliation

The cash backed reserves/accumulated surplus reconciliation is aligned to the requirements of MFMA Circular 42 – Funding a Municipal Budget.

In essence the table evaluates the funding levels of the budget by firstly forecasting the cash and investments at year end and secondly reconciling the available funding to the liabilities/commitments that exist.

The outcome of this exercise would either be a surplus or deficit. A deficit would indicate that the applications exceed the cash and investments available and would be indicative of non-compliance with the MFMA requirements that the municipality's budget must be "funded".

Non-compliance with section 18 of the MFMA is assumed because a shortfall would indirectly indicate that the annual budget is not appropriately funded.

As indicated in Table SA 10, the Mopani District Municipality's budget is fully funded for the 2012/2013 financial year.

1.7.9. Explanatory notes to Table A9 - Asset Management

Table A9 provides an overview of municipal capital allocations to building new assets and the renewal of existing assets, as well as spending on repairs and maintenance by asset class. An amount of R159 million will be spend on new assets in the 2012/2013 financial year while an amount of R88 million will be spend on renewal of existing assets.

1.7.10. Explanatory notes to Table A10 - Basic Service Delivery Measurement

Table A10 provides an overview of service delivery levels, including backlogs (below minimum service level), for each of the main services.

As indicated in the Mayor's Report, the Municipality continues to make good progress with the eradication of backlogs sanitation backlog being targeted to be fully eradicated in the 2012/2013 financial year.

2 Part 2 – Supporting Documentation

2.1 Overview of the annual budget process

Section 53 of the MFMA requires the Mayor of the municipality to provide general political guidance in the budget process and the setting of priorities that must guide the preparation of the budget. In addition Chapter 2 of the Municipal Budget and Reporting Regulations states that the Mayor of the municipality must establish a Budget Steering Committee to provide technical assistance to the Mayor in discharging the responsibilities set out in section 53 of the Act.

The Budget Steering Committee consists of the Municipal Manager and senior officials of the municipality meeting under the chairpersonship of the Head of Finance Portfolio Committee.

The primary aims of the Budget Steering Committee is to ensure:

- that the process followed to compile the budget complies with legislation and good budget practices;

- that there is proper alignment between the policy and service delivery priorities set out in the municipality's IDP and the budget, taking into account the need to protect the financial sustainability of municipality;
- that the municipality's revenue and tariff setting strategies ensure that the cash resources needed to deliver services are available; and
- that the various spending priorities of the different municipal departments are properly evaluated and prioritised in the allocation of resources.

2.1.1 Budget Process Overview

In terms of section 21 of the MFMA the Mayor is required to table in Council ten months before the start of the new financial year (i.e. in August 2010) a time schedule that sets out the process to revise the IDP and prepare the budget.

The Mayor tabled in Council the required the IDP and budget time schedule on August 2011. Key dates applicable to the process were:

- **November 2011** – Strategic planning session took place at Swadini. Aim: to review past performance trends of the capital and operating budgets, the economic realities and to set the prioritisation criteria for the compilation of the 2012/2013 MTREF;
- **January 2012** – Detail departmental budget proposals (capital and operating) submitted to the Budget and Treasury Office for consolidation and assessment against the financial planning guidelines;
- **January 2012** – Multi-year budget proposals are submitted.
- **28 January 2012** - Council considers the 2010/11 Mid-year Review and Adjustments Budget;
- **February 2012** – Adjustments budget is approved
- **30 March 2012** - Tabling in Council of the draft 2012/2013 IDP and 2012/2013 MTREF for public consultation starts in April
- **May 2012** - Tabling of the 2012/2013 MTREF before Council for consideration and approval.

There were no deviations from the key dates set out in the Budget Time Schedule tabled in Council.

2.1.2 IDP and Service Delivery and Budget Implementation Plan

The Municipality's IDP is its principal strategic planning instrument, which directly guides and informs its planning, budget, management and development actions. This framework is rolled out into objectives, key performance indicators and targets for implementation which directly inform the Service Delivery and Budget Implementation Plan.

The IDP has been taken into a business and financial planning process leading up to the 2012/2013 MTREF, based on the approved 2010/11 MTREF, Mid-year Review and adjustments budget. The business planning process has subsequently been refined in the light of current economic circumstances and the resulting revenue projections.

With the compilation of the 2012/2013 MTREF, each department/function had to review the business planning process, including the setting of priorities and targets after reviewing the mid-

year and third quarter performance against the 2011/12 Departmental Service Delivery and Budget Implementation Plan. Business planning links back to priority needs and master planning, and essentially informed the detail operating budget appropriations and three-year capital programme.

2.1.3 Financial Modelling and Key Planning Drivers

As part of the compilation of the 2012/2013 MTREF, extensive financial modelling was undertaken to ensure affordability and long-term financial sustainability. The following key factors and planning strategies have informed the compilation of the 2012/2013 MTREF:

- Policy priorities and strategic objectives
- Asset maintenance
- Economic climate and trends (i.e inflation, Eskom increases, household debt, migration patterns)
- Performance trends
- The approved 2010/11 adjustments budget and performance against the SDBIP
- Cash Flow Management Strategy
- Debtor payment levels
- Loan and investment possibilities
- The need for tariff increases versus the ability of the community to pay for services;
- Improved and sustainable service delivery

In addition to the above, the strategic guidance given in National Treasury's MFMA Circulars 51, 54, 58 and 59 has been taken into consideration in the planning and prioritisation process.

2.1.4 Community Consultation

The draft 2012/2013 MTREF as tabled before Council on 30 March 2012 for community consultation will be published on the municipality's website, and hard copies will be made available at customer care offices, municipal notice boards and various libraries.

All documents in the appropriate format (electronic and printed) will be provided to National Treasury, and other national and provincial departments in accordance with section 23 of the MFMA, to provide an opportunity for them to make inputs.

2.2 Overview of alignment of annual budget with IDP

The IDP is informed by the consultation process with the community through community public participation process. Priorities are identified and re-prioritized taking into consideration the need to satisfy the basic needs of the community.

This is costed annually through the Medium Term Revenue Expenditure Framework taking into account the availability of funds and the need to provide sustainable basic services.

The IDP has been guided amongst others by the following:

- Green Paper on National Strategic Planning of 2009;
- Government Programme of Action;
- Development Facilitation Act of 1995;
- Provincial Growth and Development Strategy (GGDS);
- National and Provincial spatial development perspectives;
- Relevant sector plans such as transportation, legislation and policy;
- National Key Performance Indicators (NKPIs);
- Accelerated and Shared Growth Initiative (ASGISA);
- National 2014 Vision;
- National Spatial Development Perspective (NSDP) and
- The National Priority Outcomes.
- Limpopo employment, Growth and Development plan

2.3 Measurable performance objectives and indicators

The Municipality targets, monitors, assesses and reviews organisational performance which in turn is directly linked to individual directors' performance.

At any given time within government, information from multiple years is being considered; plans and budgets for next year; implementation for the current year; and reporting on last year's performance.

The performance of the Municipality relates directly to the extent to which it has achieved success in realising its goals and objectives, complied with legislative requirements and meeting stakeholder expectations. The municipality therefore has adopted one integrated performance management system which encompasses:

- Planning (setting goals, objectives, targets and benchmarks);
- Monthly Monitoring monitoring and checking on the progress against plan;
- Identifying areas requiring change and improvement;
- Quarterly reporting to council
- Making changes where necessary.

2.3.1 Free Basic Services: basic social services package for indigent households

The social package assists residents that have difficulty paying for services and are registered as indigent households in terms of the Indigent Policy of the Municipality.

All qualifying indigents households receive 6 kl per month of free basic water and free sanitation as per indigent policy of the municipality.

2.3.2. Providing clean water and managing waste water

In terms of the 2009/2010 financial year performance with regard to the provision of all schemes in the district that are run by both Lepelle Northern Water and Greater Tzaneen Municipality, have a blue drop status. The schemes that are run by the Mopani District Municipality had status of between 20 and 30 percent in the 2009/2010 financial year.

2.4 Overview of budget related-policies

The Municipality's budgeting process is guided and governed by relevant legislation, frameworks, strategies and related policies.

2.4.1 Review of credit control and debt collection procedures/policies

The Credit control and debt collection is currently under review.

2.4.2 Asset Management , Infrastructure Investment and Funding Policy

The Asset Management, Infrastructure and Funding Policy is considered a strategic guide in ensuring a sustainable approach to asset renewal, repairs and maintenance and is utilised as a guide to the selection and prioritisation of individual capital projects. The policy is submitted for approval and adoption.

2.4.3 Budget Policy

The budget process is governed by various provisions in the MFMA and is aimed at instilling and establishing an increased level of discipline, responsibility and accountability in the financial management practices of municipalities. The policy is submitted for approval and adoption.

2.4.4 Supply Chain Management Policy

The goal of this Policy is to provide a mechanism to ensure sound, sustainable and accountable supply chain management within the **Mopani District Municipality**, whilst promoting black economic empowerment.

The Supply Chain Management Policy has been reviewed and comments were also sought from Provincial Treasury. The policy is submitted for approval and adoption.

2.4.5 Cash Management and Investment Policy

The purpose of this policy is to secure the sound and sustainable management of Mopani District Municipality's surplus cash and investments.

The Municipality's Cash Management and Investment Policy was reviewed and is submitted to council for approval and adoption.

2.4.6 Tariff Policies

The Municipality's tariff policies provide a broad framework within which the Council can determine fair, transparent and affordable charges that also promote sustainable service delivery.

The policy is submitted for approval and adoption by council.

1.4.7. Indigent policy

The indigent policy seeks to balance the immediate needs of the poor population to have access to affordable basic services with the long term implications of failure to implement remedial measures coupled with the provision of affordable services to indigents in a financially viable manner.

The policy has been reviewed and is submitted to council for approval and adoption.

1.4.8. Writting off of bad debts

The purpose of this policy is to ensure that the principles and procedures for writing off irrecoverable debt are formalised.

The policy has been compiled and submitted to council for approval and adoption.

1.4.9. Virement policy

The purpose of this policy is to provide a framework whereby transfers between line items within votes of the operating budget may be performed with the approval of certain officials.

The policy is submitted to council for approval and adoption.

2.5 Overview of budget assumptions

2.5.1 External factors

Owing to the economic slowdown, financial resources are limited due to reduced payment levels by consumers. This has resulted in declining cash inflows, which has necessitated restrained expenditure to ensure that cash outflows remain within the affordability parameters of the municipality's finances.

2.5.2 General inflation outlook and its impact on the municipal activities

There are five key factors that have been taken into consideration in the compilation of the 2012/2013 MTREF:

- National Government macro economic targets;
- The general inflationary outlook and the impact on municipality's residents and Businesses.
- The impact of municipal cost drivers;
- The increase in prices for bulk electricity Municipality and water; and
- The increase in the cost of remuneration.

2.5.3 Collection rate for revenue services

The debt impairment as indicated in the budget seeks to indicate that more efforts need to be put in the collection process. Revenue Enhancement Strategy need to be reviewed for all the locals to increase revenue collection.

2.5.4 Growth or decline in tax base of the municipality

Debtors revenue is assumed to increase at a rate that is influenced by the consumer debtors collection rate, tariff/rate pricing, real growth rate of the Municipality, household formation growth rate and the poor household change rate. Continuous growth in the Greater Tzaneen Municipality assist in the increased revenue base of both Tzaneen and Mopani District in the supply of water and sanitation services.

2.5.5 Salary increases

The guideline from National Treasury has been used in determine salary increases.

2.5.6 Impact of national, provincial and local policies

Integration of service delivery between national, provincial and local government is critical to ensure focussed service delivery and in this regard various measures were implemented to align IDPs, provincial and national strategies around priority spatial interventions. In this regard, the following national priorities form the basis of all integration initiatives:

- Creating jobs;
- Enhancing education and skill development;
- Improving Health services;
- Rural development and agriculture; and
- Fighting crime and corruption.

The municipality's infrastructure projects are labour intensive.

2.5.7 Ability of the municipality to spend and deliver on the programmes

It is estimated that a spending rate of at least 99 per cent is achieved on operating expenditure and 100 per cent on the capital programme for the 2012/2013 MTREF of which performance has been factored into the cash flow budget.

2.6 Overview of budget funding

2.6.1 Medium-term outlook: operating revenue

Table A4 is a breakdown of the operating revenue over the medium-term.

2.7 Municipal manager's quality certificate

I **Maake MT**, Municipal Manager of Mopani District Municipality, hereby certify that the annual budget and supporting documentation have been prepared in accordance with the Municipal Finance Management Act and the regulations made under the Act, and that the annual budget and supporting documents are consistent with the Integrated Development Plan of the municipality.

Print Name Maake MT

Municipal Manager of Mopani District Municipality

Signature _____

Date _____